Credit scores: A peek behind the curtain

A look at what scores are, where they come from, and how you can manage them
The players in the credit cycle

- Credit reporting companies
- Lenders
- Risk score modelers
- The government

You
The three national credit reporting companies

Credit reporting companies serve consumers and businesses by making possible:

- Instant credit
- Lower-cost credit
- Nationwide credit
- Widespread availability
- Account management
Credit reporting companies are like libraries

Credit reporting company clients check out information...

...if they have a permissible purpose under the law
What’s in a credit report

- Identifying information
- Account information
- Public record information
- Inquiries
- Dispute instructions
What’s NOT in a credit report?

Credit reporting companies do **not** store:

- Criminal background
- Medical information
- Buying habits / transaction data
- Income
- Bank account information
- Credit scores
Rental data analysis highlights
Credit for renting

- **100%** of the no-hit residents transitioned to the thin-file category and are now scoreable.
- Subprime residents decreased **19%** with the addition of the rental tradeline.
- **95%** of study participants experienced a score increase or no score change with the rental tradeline.

Learn more: www.experian.com/buildcredithistory

For the purpose of this data analysis, Experian RentBureau® utilized the VantageScore® 3.0 advanced credit scoring model, which produces a highly predictive score and scores up to 35 million consumers previously deemed unscoreable. VantageScore® 3.0 has a score range of 300 to 850 to represent a consumer’s creditworthiness.
How long is information kept on a report?

<table>
<thead>
<tr>
<th>Type of account</th>
<th>Time frame</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open accounts in good standing</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Closed accounts in good standing</td>
<td>10 years</td>
</tr>
<tr>
<td>Late or missed payments</td>
<td>7 years</td>
</tr>
<tr>
<td>Collection accounts</td>
<td>7 years</td>
</tr>
<tr>
<td>Civil judgments</td>
<td>7 years</td>
</tr>
<tr>
<td>Chapter 7 bankruptcy</td>
<td>10 years</td>
</tr>
<tr>
<td>Chapter 13 bankruptcy</td>
<td>7 years</td>
</tr>
<tr>
<td>Unpaid tax liens</td>
<td>10 years</td>
</tr>
<tr>
<td>Paid tax liens</td>
<td>7 years</td>
</tr>
<tr>
<td>Credit inquiries</td>
<td>2 years</td>
</tr>
</tbody>
</table>
What is a credit score?

- Used instead of a manual “score sheet”
- Valuable risk management tool
- Many different models, with many different scales available from many different sources
- Credit reporting companies often “apply” the model selected by the creditor when delivering the credit report; however, the credit scoring model, or formula, is proprietary to the developer
What credit scores and toilet paper tubes have in common
But, when you take the tube away

Mortgage Lending
Fannie Mae
Freddie Mac
FICO

VantageScore v. 1
VantageScore v. 2
VantageScore 3.0
VantageScore 4.0

Insurance Scores
CUNA
Credit Union Scores

Credit cards
Retailers

Experian
Decision Analytics

Experian
Plus Score

Auto Lending

National Banks

Other Score Modelers

FICO Classic Model v. 2
FICO Classic Model v. 3
FICO Advanced Model v. 1
FICO Advanced Model v. 2
FICO 08
FICO 9
Risk factors are the key

- Generated when a risk score is calculated
- Tell the consumer what to address in their credit history to become more creditworthy
- Are largely consistent from model-to-model
- Are usually included in or described in an adverse action notice
- Experian provides risk factors to consumers with the scores it provides through its direct-to-consumer services
VantageScore® 3.0
Characteristics contributions

VantageScore 3.0 contributions

- Payment History, 40%
- Utilization, 20%
- Balances, 11%
- Depth of credit, 21%
- Recent credit, 5%
- Available credit, 3%
Improving credit scores
There is no silver bullet

• Time is the key
• You can’t “fix” the number
• Address the risk factors and every risk score will improve
Credit scoring changes may help faster recovery

- Paid collections excluded from score
- Medical collections held 6 months before being added to report
- Medical collections weighed less heavily, paid are excluded
- Trended data beginning to appear in reports and scores
- Public records largely removed from reports
- Auto and mortgage inquiries counted as one or excluded
5 “secrets” to a good credit history

1. Establish a credit report
2. Always pay as agreed
3. Get a credit card
4. Keep balances below 30 percent
5. Use caution in closing accounts
Protecting yourself from fraud

• Be thoughtful about where and how you share information
• Check credit reports regularly
• Subscribe to monitoring service
• Free security alerts
• Credit freeze (understand what it does and does not do)

www.experian.com/fraud
Children and fraud

- Synthetic ID
- Do not disclose reports for minors under 13
- Alert lenders when a birthdate belongs to a minor
- Alert lenders when a SSN would belong to a minor or has not been issued
- Provide free reports to parents
- Freeze minors file if one exists
- Most common fraud is familiar or familial

www.experian.com/fraud
Minor Child Instructions
Centralized source for free reports
www.annualcreditreport.com

- One free report from each of the three bureaus is available every twelve months
- Single contact point
  - Telephone – 877.322.8228
  - Mail
  - Internet
- Fee for credit score disclosure
Experian education resources
On the Web

Free annual FACT Act credit report

www.annualcreditreport.com
Access to free report from each of the three credit reporting companies

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